Finishing the Job

For the first time in over a generation, an increasing number of Americans are enjoying economic prosperity. Wages for most workers are up, unemployment and inflation are at historic lows. The United States is currently experiencing the longest economic expansion in its history. A lot has been accomplished, but there is still more to achieve.

Accomplishments

- **After 20 years of stagnation, real average weekly earnings are rising once again.**

- **At 4.2 percent, unemployment is at its lowest rate since 1970. The unemployment rate has been at or below 5 percent for the last 3 years.**

- **The economy created more than 20 million jobs between 1992 and 1999, an average of 2½ million jobs per year. By contrast, between 1980 and 1992, employment grew by only an average of less that 1½ million jobs per year.**

- **Core inflation has fallen to its lowest rate since 1965 — despite continued declines in the unemployment rate.**

- **Economic growth has been above 4 percent during each of the last 3 years, well into the current expansion.**

For the first time since the Full Employment and Balanced Growth Act was passed in 1978, the US economy has met the goals set out by Senator Hubert Humphrey and Congressman Gus Hawkins:

- The unemployment rate for individuals over 20 years old is just ½ percentage point above the goal of 3 percent.

- The unemployment rate for individuals over 16 years old has met the stated goal of 4 percent.

- Inflation has remained below the goal of 3 percent since the beginning of the Clinton Administration, 7 years ago.

- All of the above was achieved while balancing the federal budget, for the first time in over 40 years.

The great irony is that Senator Humphrey and Congressman Hawkins saw these goals as part of the path toward achieving full employment and balanced economic growth. Today, 20 years later, Federal Reserve Chairman Alan Greenspan views them as dangerous signs of an overheating economy. On the contrary, low unemploy-ment, low inflation, and rising wages are ***always*** good for an economy.

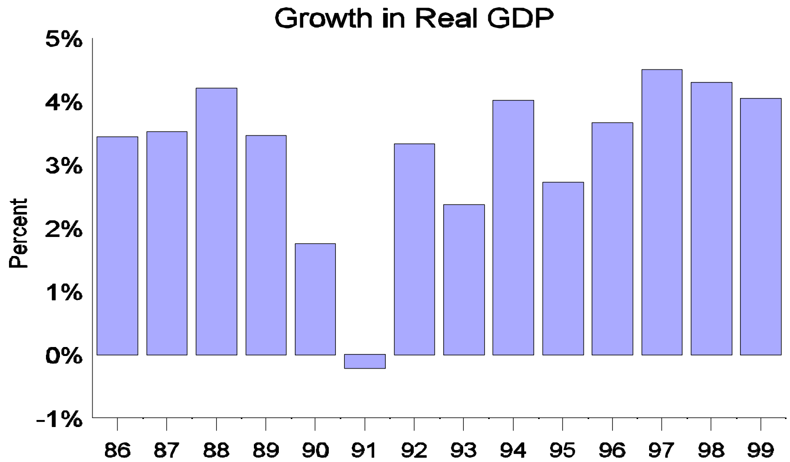
There is much to celebrate in the current economic expansion. At the same time, there remains a lot more to do. The benefits of the expanding economy have not yet been experienced by all Americans. The current economic prosperity provides a good opportunity to finish the work which has begun on the following agenda, thereby restoring some of the economic losses experienced over the last 2 decades.

Unfinished Agenda

- **Raise the minimum wage by $1 over the next two years.**
- **Encourage more localities to implement Living Wage ordinances, which include a higher minimum wage and pension and health care benefits.**
- **Move toward universal health care.**
- **Enroll all uninsured children in the Children's Health Insurance Program.**
- **Establish an outpatient prescription drug benefit for all seniors on Medicare.**
- **Ensure that all students have access to computers and to the Internet, and educate children on how to use them to enhance their skills.**

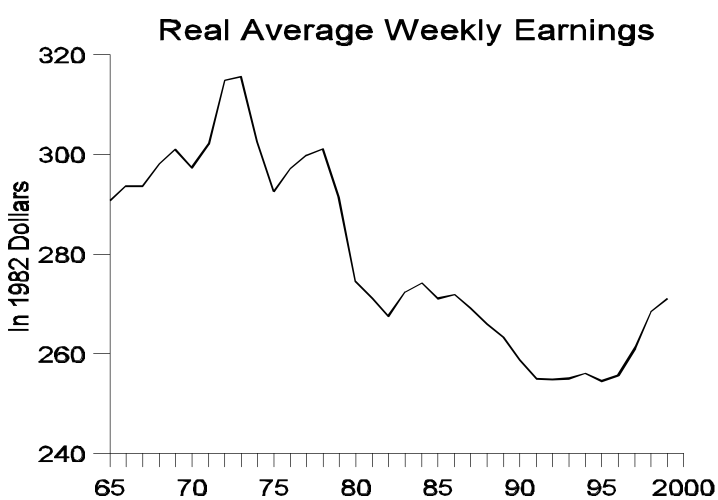
I. The Longest Economic Expansion in US History

The new century begins with the US economy characterized by robust growth, low and stable inflation and low unemployment. By February 2000, the Gross Domestic Product (GDP) had grown for 107 consecutive months, making the current economic expansion the longest on record. Between 1992 and 1999, average real GDP growth was approximately 3 ½ percent a year. During the fourth quarter of 1999, well into the expansion, real GDP growth was almost 7 percent on an annual basis, the highest quarterly growth rate in 3½ years.



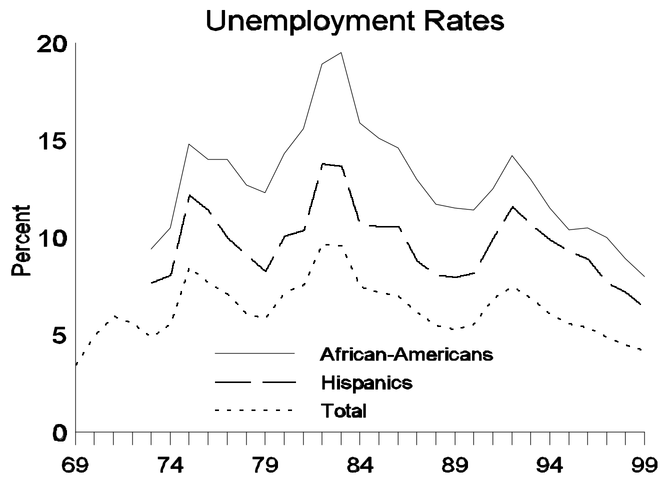
Source: Department of Commerce, Bureau of Economic Analysis

After falling and stagnating for over 20 years, real average weekly earnings have been rising since 1993. Over the last 6 years, real average weekly wages have grown by more than 6 percent. Yet, despite this growth, real average weekly wages have only just returned to levels achieved in 1986 and are still 14 percent ***below*** their 1973 high. Although the stagnation of real average wages has been halted, there is a lot more to do to ***reverse the decline*** experienced since the mid-1970s. Assuming wages continue to rise as fast as they have over the last 6 years, it would take ***another*** 14 years before they would reach their 1973 value.



Source: Department of Labor (BLS).

The average monthly unemployment rate in 1999 was 4.2 percent, its lowest rate in 30 years. The economy created more than 20 million jobs between 1992 and 1999. Most of the new jobs created (18 million) were in the service sector; 1.8 million new jobs were in construction. Manufacturing employment grew by almost 330,000 jobs since 1992, despite a significant loss of jobs over the last two years due to the loss of export markets and the surge in imports resulting from the Asian financial crisis.

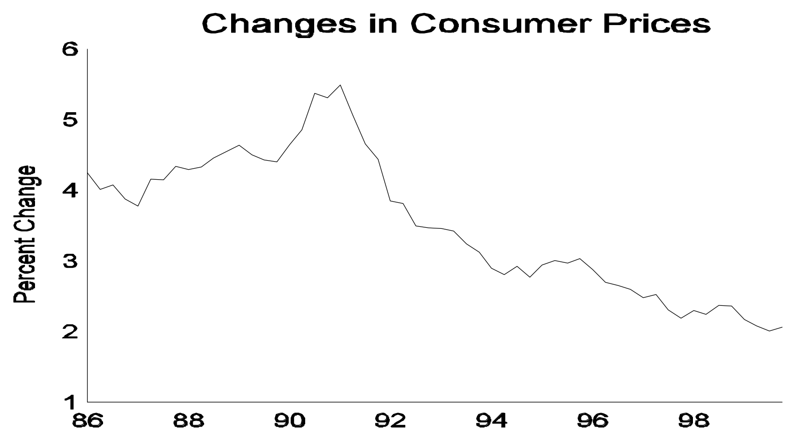


Source: Department of Labor, Bureau of Labor Statistics

Tight labor market conditions have lifted the job prospects for minority workers after years of difficulty. The unemployment rate for African-Americans was 8 percent in 1999, down from a high of more than 14 percent in 1992. Hispanics have also seen their unemploy-ment rate drop from about 11½ percent in 1992 to approximately 6½ percent in 1999. These are the lowest minority unemployment rates since the government began tracking them in 1973.

This performance also extends to other labor market measures. The number of discouraged workers – those who are not actively seeking employment due to pessimism about their job prospects – fell from 7 million in 1994 to 4.3 million in January 2000. Discouraged workers as a percent of all those not in the workforce fell from 10 percent in 1994 to 6 percent in January 2000.

Despite the tight labor market, inflation has remained in check throughout this entire economic expansion. In 1999, core inflation – the change in prices of goods excluding food and energy – was at its lowest rate since 1965. There is little evidence that the strong economy has led to increases in broader price levels during 1999 and early 2000, despite recent increases in energy prices. Energy prices rose at an annual rate of 34 percent for the 3 months ending February 2000, and the core inflation index increased at an annual rate of only 1.8 percent over the same period. For all of 1999, inflation remained low, at less than 3 percent, while consumer spending grew by 5½ percent. To date, there is no evidence that low unemployment, recent wage gains and higher consumer spending have put upward pressure on inflation.



Source: Department of Labor, Bureau of Labor Statistics. Core rate of inflation, calculated year to year.

In recent years, wages have grown faster than the prices of goods and services. This represents a real improvement in living standards. In addition, with all the recent advancements in technology, the ***quality*** of most goods has improved. For example, a 19-inch TV cost $439 in 1973. An average person would have had to work about 2½ weeks in order to afford the TV. Today, a substantially better quality 19-inch TV costs only $270 and an average person only has to work a little less that 2 days in order to afford it. The price of televisions has fallen while their quality has improved, and wage increases have made televisions even more affordable.

There have also been improvements in the affordability of food and other basic commodities. For example, a family of four who lived in San Jose, California paid $100.83 a month in 1983 for a basket of selected goods and commodities.[1] This was equivalent to a little over a day's wages. By contrast, this same basket of goods cost $124.12 in 1997, but because wages grew faster than prices, it took only a little over half a day's work to afford these goods.

Most of the improvement in consumer purchasing power occurred in the 1990s. The current expansion has increased job opportunities for all workers and has halted the slow deterioration in middle class living standards that occurred in the 1970s and 1980s.

Probably the most important economic development of the 1990s has been the elimination of the federal budget deficit. A combination of fiscal discipline and robust economic growth has created two consecutive years of federal budget surpluses after 40 years of continuous deficits. The surplus in 1998 was proof that policies implemented over the previous 6 years were successful in reversing the large budget deficits which resulted from Reaganomics.

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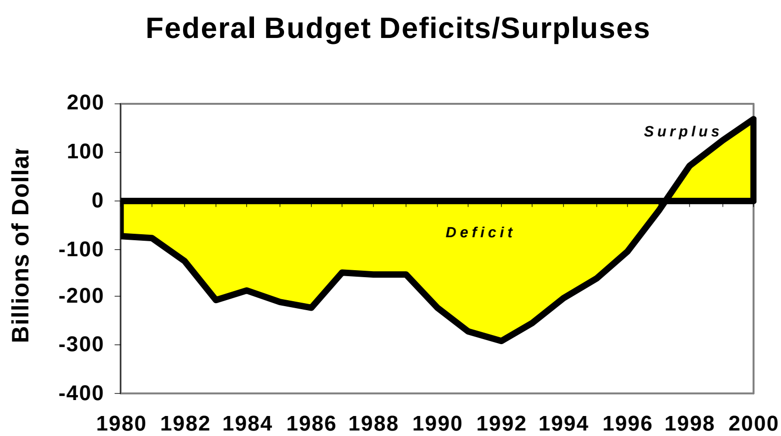
[1] The basket includes 4 loaves of bread (one for each week), 4-4 pound roasts, 4-4 pound chickens, 4 dozen eggs (one dozen per week), 16 pounds of apples (4 pounds a week), 1 pound of coffee and 24 gallons of gas (12 gallons twice a month).

In the early 1980s, large tax breaks for corporations and wealthy Americans, coupled with an increase in defense outlays, resulted in large budget deficits throughout the rest of the 1980s and into the early 1990s. The deficit reached its post-World War II peak in 1983, when it accounted for 6 percent of total output. From the late 1980s until 1992, the economy struggled to overcome the burden of deficits in an economically stagnant environment. Presidential leadership and Democratic efforts on the Omnibus Budget Reconciliation Act of 1993, which no Republicans supported, together with sound economic growth during the 1990s, resulted in reducing and finally eliminating the budget deficit by 1998.



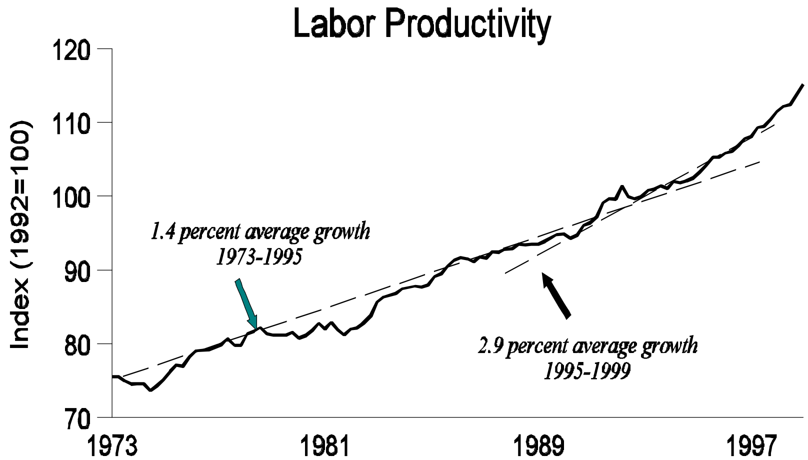
Source: Office of Management and Budget.

Since 1981, Americans have paid more than $2 trillion in interest payments accrued on the additional debt incurred between 1981 and 1992. This translates into approximately $500 per man, woman, and child each year for the last 19 years. The run-up of the budget deficit during the 1980s placed a heavy burden on Americans, at a time when their wages were stagnant. The challenge for the future is not to repeat the mistakes of the early 1980s, but to maintain fiscal discipline and promote greater investment and economic growth.

What is fueling the expansion?

The most important factor in understanding recent improvements in wages and salaries is the increase in productivity growth rates. Higher productivity growth makes it possible for wages to grow while maintaining low rates of unemployment with little or no inflation. In order to be most beneficial to workers, productivity growth should reflect real improvements in output and wages, not just firms laying off workers. Thus, the challenge is to achieve both high rates of productivity growth and low rates of unemployment simultaneously. This is currently the case in the US economy.

Between 1973 and 1995, the average annual rate of productivity growth was an anemic 1.4 percent per year. At the same time, real average weekly wages ***declined*** by 1 percent a year. In contrast, since 1995, average annual productivity growth has doubled, while the unemployment rate has fallen, and real average wages have ***grown*** by more than 1½ percent per year.



Sources: Department of Commerce (Bureau of Economic Analysis) and Department of Labor (BLS).

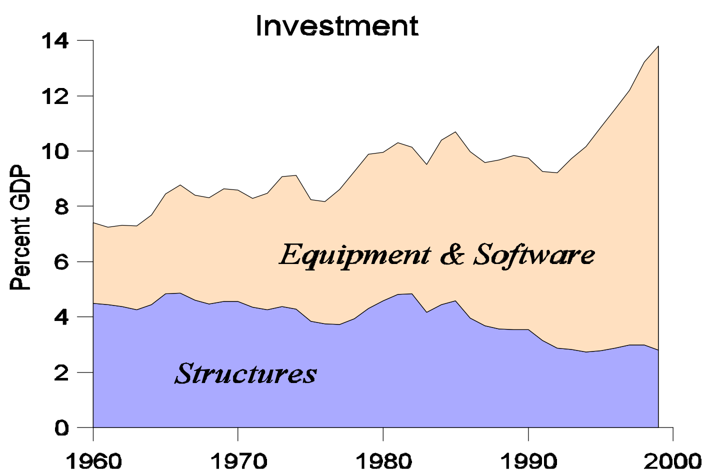
This impressive growth in productivity raises several questions. Most importantly, are we experiencing a long-term shift in productivity growth rates or is it just a one-time phenomenon? How much of the improvement in productivity is attributable to recent advances in technology? How much of the improvement is due to cyclical factors?

In its recent Annual Report to the President, the Council of Economic Advisors highlights the fact that current productivity growth rates are unusually strong this far into an economic expansion. Historically, productivity tends to surge during an economic slowdown, as firms lay off workers and cut costs, and tends to remain high during the early stages of a recovery, before declining. The continued surge in productivity growth this far into the economic expansion suggests that the recent improvement is not all due to cyclical factors. At the Joint Economic Committee's High-Tech Summit held last summer, Fed Chairman Alan Greenspan, as well as CEOs of IBM, Intel, Microsoft, the President of MIT, and the President of the Communications Workers of America, all testified that recent advancements in technology have contributed to this improvement in productivity. These experts also suggested that we are at the beginning of these technological advances, and that further improvements can be expected for many years to come.

Recent improvements in productivity growth have followed an unprecedented increase in investment in new technologies, especially computers and information technology. Between 1981 and 1993, non-residential fixed investment fell from 13 percent of GDP to less than 10 percent. The last time the rate of investment was that low was in 1964. The fall in investment throughout the 1980s and the early 1990s helps explain the low productivity growth during that period. Between 1993 and 1999, non-residential fixed investment rose from less than 10 percent to almost 14 percent of GDP. Between 1991 and 1998, total investment grew more than 3 times faster than GDP, and more than twice as much as in the 1980s. The steep growth in investment over such a short period of time is unprecedented and is fueling the current economic expansion.

In addition to a significant increase in the amount of productive investment, there has been a shift in the composition of investment. In 1960, investment in structures – such as the bricks and mortar of factories – accounted for 60 percent of non-residential fixed investment, while equipment – such as machinery and computer software – accounted for the remaining 40 percent. The rapid growth of investment in equipment – especially computer software – over the last 40 years has resulted in a reversal of that relationship. Since 1993, investment in information processing equipment and software has grown at an average annual rate of 19 percent. By 1999, equipment and software comprised 80 percent and structures comprised only 20 percent of non-residential fixed investment.

Improvements in the quantity and quality of investment are critical to expanding the productive capacity – or the supply-side – of the economy. This pick-up in investment can be traced to efforts by President Clinton and Democrats in Congress over the last few years to reduce the budget deficit, thereby freeing up capital and making it available for productivity-enhancing investments in the economy. The economic expansion of the 1990s has been primarily fueled by increases in investment, rather than by increases in government spending, as in the 1980s. In fact, government spending as a percent of GDP has ***declined*** during the current expansion, and currently stands at less than 18 percent of GDP, its lowest rate since 1967.



Source: Department of Commerce, Bureau of Economic Analysis.

Reducing the budget deficit enabled monetary policy to be more accommodating, allowing interest rates to fall. This helped contribute to a positive environment for investment, particularly in information technology (IT) equipment and software. Developments in the IT sector were at a stage where massive inflows of capital could be absorbed. This increase in investment led to major advances in technology, which in turn contributed to a significant improvement in productivity growth. As a consequence, wages and salaries rose after 20 years of decline and stagnation without igniting inflation. This chain of events, which occurred during the 1990s, represents a true expansion of the supply-side of the economy.

There is much to celebrate in the current economic expansion. Today, more people are working at higher wages than anytime in the past 20 years. Low inflation and high productivity growth have contributed to real improvements in living standards for most Americans. But the benefits of this prosperity have not yet been shared equally by everyone. In fact, some Americans have yet to see significant change in their economic situation.

What should be done to maintain the current expansion?

If anything has been learned over the last 7 years in terms of economic policy, it is how important eliminating the budget deficit has been for stimulating private investment, raising wages for American workers and keeping inflation low. Looking forward, it is crucial to maintain the fiscal discipline practiced by the Clinton Administration and the Democrats in Congress since 1993.

The last 20 years provide sufficient evidence to analyze the consequences of economic policies. The key is to learn from our experiences and avoid making the same mistakes we made in the past.

The simple fact is that the Reagan "supply-side revolution" was a complete disaster. While a few got rich, the vast majority of Americans suffered as the country was saddled with an enormous debt, which working families are still paying off.

As a consequence of the 1981 tax cut, tax receipts not only did not rise, as the advocates promised, but rather they fell from 19 percent of GDP in 1980 to approximately 17½ percent between 1983 and 1986. Government outlays, which included draconian cuts in social programs in order to pay for the large build up in defense spending, stood at approximately 22½ percent of GDP throughout the period. The results were budget deficits for "as far as the eye could see."

These ballooning budget deficits placed, and continue to place, a burden on American workers and caused the federal debt to triple between 1981 and 1992. Since 1981, American workers have paid approximately $2 trillion in interest on the additional debt, to finance the so-called "supply-side experiment" of the 1980s.

The great irony is that the Reagan Administration's so-called "supply-side experiment" was nothing more than a Keynesian expan-sion of consumer demand, without any improvement in investment. In fact, the "supply-side" policies of the 1980s actually ***hurt*** the exact investment they were intended to encourage. Despite these tax cuts, or may be because of them, investment in plant and equipment remained flat, at less than 10 percent of GDP, from 1980 to 1992.

The only difference between the Keynesian expansion in the 1980s and others, was that this one was accompanied by a real ***decline*** in living standards of American workers. Workers watched the purchasing power of their paychecks fall 7 percent between 1980 and 1992. In addition, the 1981 tax cuts – which favored the wealthy – contributed to a considerable worsening in income inequality.

The last 7 years have been an excellent example of how to expand the supply-side of the economy. Consider the record: Since 1992, investment in plant and equipment has grown from less than 9 percent of GDP to almost 14 percent of GDP last year. Productivity growth rates, which averaged 1½ percent annually between 1973 and 1995, have been closer to 3 percent annually since 1995. Recently, the Commerce Department revised upward its estimate of productivity growth in the non-farm sector to 6.4 percent in the fourth quarter of 1999. The size of the revision alone was greater than average productivity growth rates during most of the 1970s and 1980s.

Higher productivity growth enables wages to rise without igniting inflation. As productivity grew over the last 7 years, real average weekly wages rose by 6 percent. The unemployment rate fell and now stands at 4.2 percent. There are no signs of renewed inflation due to the wage gains. There is much to celebrate in this economy, but there is still a lot which needs to be done to make up for the declines in living standards due to the supply-side experiment of the 1980s.

One of the most important lessons of the last 20 years is that the best way to increase tax revenues is simply to grow the supply-side of the economy – as the nation has been doing since 1993, not by drastically cutting tax rates, which was done in the 1980s.

The Republicans in Congress seemed not to have learned that lesson. Their proposed budget for FY 2001 includes a "Bush-lite" tax cut. It only goes half as far as Governor Bush's proposal, but costs more than the bloated Republican tax cut proposal for FY 2000, which the American people clearly rejected.

There are two fundamental things wrong with the Republican's latest tax proposal. First, it benefits the rich and does not help the vast majority of Americans. Second, the tax cuts, together with the rest of the proposed budget package, are certain to take the economy back down the path it took during the 1980s, which caused real economic hardship on workers and their families.

In addition to the large tax cuts, the Republican budget calls for increases in defense spending, and drastic reductions to non-defense discretionary spending. This precise mix of policies brought us the record budget deficits of the 1980s, which contributed to a decline in living standards for the vast majority of Americans.

The Republican budget calls for increasing defense spending by $17½ billion above the caps, which is even more than the Administration's request. According to the Children's Defense Fund, just this additional spending alone would be enough to:

- Provide Head Start to 1.7 million additional children; *and*

- Provide child care to more than 8 million additional children; *and*

- Provide 21st Century After-School programs for close to 35 million additional children.

The Republican budget cuts non-defense discretionary spending by 6 percent or $114 billion over 5 years. If this budget is enacted, it will mean, among other program cuts:

- Dropping 310,000 low-income women off of the Women, Infant and Children program (WIC), just next year;

- Denying child care to over 12,000 children in 2001;

- Eliminating Head Start services for more than 40,000 children and their families by 2005; and

- Cutting off energy assistance to 164,000 low-income families next year, precisely at the same time rising oil prices are hurting families.

The nation should not return to the failed policies of the past, which would certainly jeopardize the recent unprecedented prosperity. Instead, Congress and the President should maintain fiscal discipline, and focus on addressing some of the major economic problems affecting American workers and their families which have been put off for at least 20 years. Now is the time to begin solving these problems.

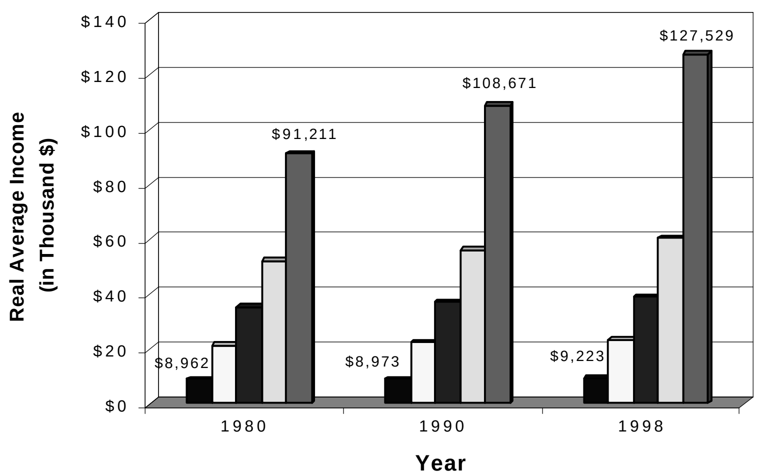
II. The Widening Income Gap

Although it has taken some time to achieve, average before-tax income is now beginning to grow for Americans in ***all*** income groups, not just for the wealthy. Yet after-tax incomes have not performed as well. Overall, the income gap between the wealthy and the rest of Americans continues to widen.

Before-Tax Family Income

Over the past 20 years, real average income for the wealthiest 20 percent of families (the top quintile) grew, while real average income for the poorest 20 percent of families (the lowest quintile) remained fairly flat. Real average income for those in the lowest quintile began rising in 1993 and by 1998 returned to its 1978 level.

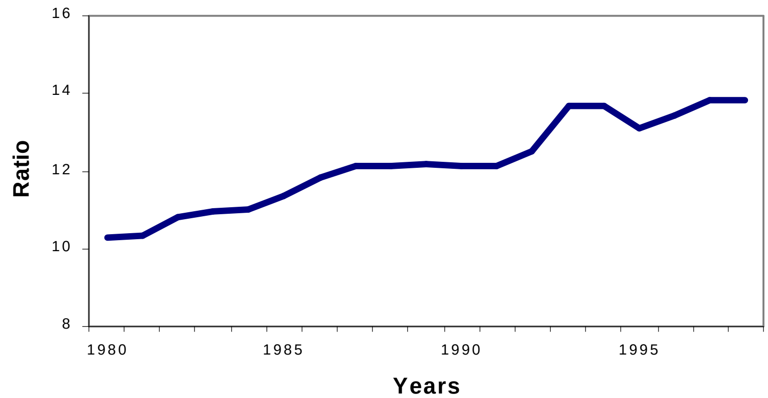
Real Average Income by Quintile



Source: US Census Bureau, Income Statistics Branch, from Detailed Historical Income and Poverty Tables, Table H-3, revised May 24, 199.

Although it is heartening to see that the current economic expansion has finally begun to raise the incomes of those people in the lowest quintile, they are still trailing the rest of the country in sharing the benefits of the current prosperity. In 1980, the average income of the wealthiest 20 percent of families was 10 times higher than that of the poorest 20 percent. By 1998, the wealthiest families earned ***14*** times as much as the poorest. The primary reason for this widening gap is the incredible growth in the average income of the wealthy. Although average income in each quintile has improved since 1993, the average income of the wealthiest families has grown much faster. In other words, the income gap continues to widen despite income improvements in each quintile.

Income Ratio of Wealthiest to Poorest Families 1980 to 1998



Source: US Census Bureau, Income and Statistics Branch, from Detailed Historical Income and Poverty Tables, Table H-3, revised May 23, 1999.

After-Tax Household Income

A recent study, based on data from the Congressional Budget Office (CBO), analyzes trends in after-tax income.[2] After adjusting for taxes (and the Earned Income Tax Credit), the top 20 percent of US households experienced a 43 percent increase in average income from 1977 to 1999, while the average income of the lowest 20 percent experienced a 9 percent ***decline***. Recent improvements in income, although welcomed, have been too limited to have much impact on narrowing the income gap thus far.

The study also reports that:

$ The increase in income of the top one percent of families from 1977 to 1999 equaled the ***total*** income of the lowest 20 percent in 1999.

$ The richest one percent of Americans C 2.7 million people C took home as much after-tax income as the lowest 38 percent C or 100 million people C ***combined***.

[2] "The Widening Income Gulf," The Center on Budget and Policy Priorities, Washington, DC: 1999. The CBO data begin in 1977 and end with projections for 1999.

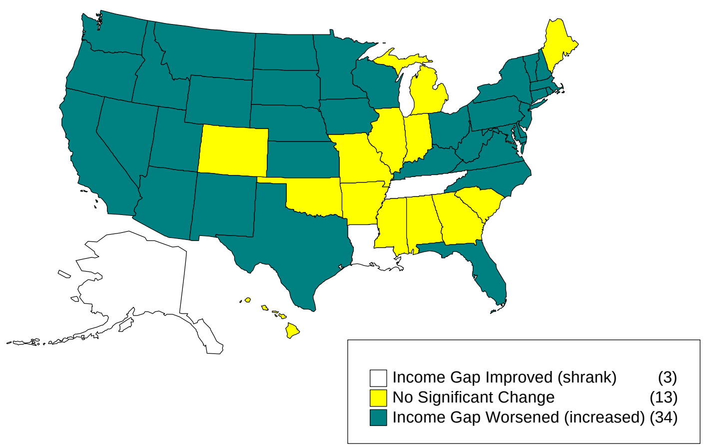
$ In 1977, the top one percent of Americans received a little more than 7 percent of all national after-tax income. By 1999 this concentration had almost doubled, as the top one percent of Americans received almost 13 percent of total national after-tax income.

$ On average, the richest one percent of households are expected to pay a smaller percentage of their 1999 income in taxes than they would have under 1977 tax rates. This amounts to an average saving of $40,000 per household.

The foundations for this disparity were laid in the 1980s. Most of the large income growth for the top quintile occurred from 1977 to 1989, when their average after-tax income increased by 33 percent, compared to a 7 percent increase from 1989 to 1999.

Comparing the increase in income *before* taxes to the increase *after* taxes for the wealthiest Americans illustrates the perverse impact of federal tax policy over the last 20 years. For the top one percent of households, average *after*-tax income grew by 20 percentage points ***more*** than average *before*-tax income between 1977 and 1999. Yet, meanwhile, average after-tax income for the poorest fifth of households ***declined*** over this same period. In contrast to conventional wisdom, the US tax system is redistributing income from the poor to the rich.

Changes in the Income Gap* by State
from 1988-90 to 1996-98



* Defined as the difference between the average income of the poorest and richest 20 percent of families.

Source: "Pulling Apart," Center on Budget and Policy Priorities.

State income data reveal that the widening income gap is prevalent across the entire country. One recent study shows that the income gap has widened in almost every state since the 1970s.[3]

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[3] "Pulling Apart: A State by State Analysis of Income Trends", Center on Budget and Policy Priorities and the Economic Policy Institute, Washington, DC: 2000.

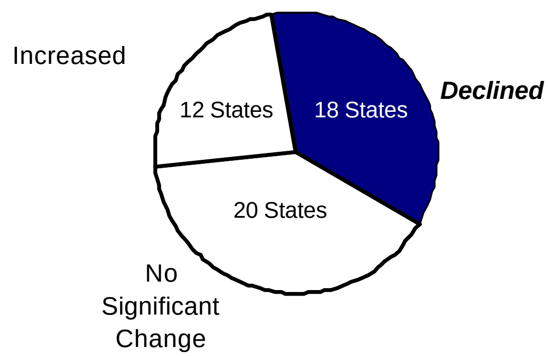
Specifically:

- Over the last decade, the gap between the wealthiest 20 percent and the poorest 20 percent of Americans widened in 34 states, and was reduced in only 3 states – Alaska, Louisiana, and Tennessee.

- The real income of the poorest 20 percent of families ***declined*** in 18 states between the late 1970s and the late 1990s. In 6 of those states, the decline was over $2,000 per family (in 1997 dollars).

- By the late 1990s, the wealthiest 20 percent of families in every state had a larger share of the state's total income than they had in the late 1970s. Meanwhile, in 47 states, the share of total income held by the poorest 20 percent of families ***declined*** by the late 1990s.

Change in Average Income of the Poorest Families



Source: "Pulling Apart," Center on Budget and Policy Priorities.

- In 24 states, the wealthiest 20 percent of families had more than 9½ times as much income as the poorest 20 percent of families. In the late 1970s, not a single state had such a high "top-to-bottom" ratio.

- The gap between the average income of all middle-income families and the top 20 percent grew in 45 of the 50 states from the late 1970s to the late 1990s.

Between 1991 and 1993 – the "Bush Recovery" – average real income for those families in the 4 out of 5 income groups *declined*. By contrast, between 1993 and 1996 – the "Clinton Recovery" – average real income for all families, regardless of income group, improved.[4]

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[4] Klein, Bruce, "The 1990s Economic Expansion: Who Gained the Most," Report Prepared for the Democratic Members of the Joint Economic Committee, Washington, DC: 1998.

The widening gap can be explained by strong growth in the upper income group and a weakening in the safety net for the lower income group. Even as the income gap has widened, there has been an erosion in the mechanisms originally designed to help lower income people, particularly as real value of the minimum wage has declined and limitations on assistance resulting from welfare reform have increased.

What should be done to close the income gap?

On the basis of national averages, the US economy is robust. But national averages camouflage how individuals are fairing. It is ironic that the income gap continues to widen as the economy prospers. Federal Reserve Chairman Alan Greenspan has raised the widening income gap as one of the most serious problems currently facing the nation, yet the Federal Reserve's recent decisions to raise interest rates are likely to worsen the situation. Economic policy should be aimed at redistributing income from the wealthy to the less fortunate. These policies should be specifically targeted at raising incomes for the vast majority of Americans, not just for the wealthy. At a minimum, the policies should stem any further erosion in incomes of those at the lower end of the income scale. Policies such as raising the minimum wage, establishing living wages, increasing health insurance coverage, providing prescription drug coverage for seniors, and improving education can all contribute to narrowing the income gap.

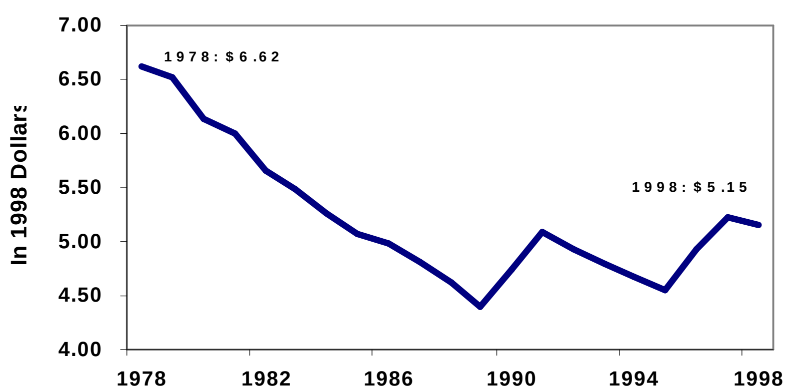
III. The Erosion of the Minimum Wage

One of the most important public policy tools aimed at raising living standards for low-income Americans is the federal minimum wage. Instituted in 1938, the minimum wage was established to help ensure "maintenance of the minimum standard of living necessary for health, efficiency, and general well-being of workers." In 1999, 7.2 million people, or 5½ percent of workers – two-thirds of whom were 25 years and older – worked at the minimum wage, which is currently set at $5.15 an hour.

Most employees receiving the federal minimum wage work in fast food restaurants, retail establishments, and lower-skilled service jobs (such as commercial housekeeping). More than half of those workers earning the minimum wage are employed in retail trade. Another 25 percent of minimum wage workers are employed in agriculture and 6 percent work in the public sector. Women comprise almost two-thirds of minimum wage workers and minorities are disproportionately more likely to earn the minimum wage than others.

Over the last 20 years, the *real* value of the federal minimum wage has been falling, despite moderate increases in overall wages and salaries. Over the last 20 years, the real value of the minimum wage has fallen by 22 percent and is currently ***below*** its real value in the 1960s and 1970s. By contrast, the real average wage for all hourly workers has declined by 10 percent, or less than half that amount. As a consequence, workers earning the minimum wage have been experiencing a real decline in their living standards **C** earning less and less for the same amount of work, and falling further and further behind.

Real Value of the Minimum Wage



Source: Bureau of Labor Statistics.

Part of the continuous erosion in the minimum wage can be explained by its legislatively-mandated structure. As currently structured, the minimum wage can only be adjusted by an act of Congress. Thus, the minimum wage, by its very nature, is reactive and is always trying to "catch up" to changes in prices and other wages.

In contrast to earlier times, the minimum wage, at its current level, does *not* guarantee a family income above the poverty level. Despite two increases since 1980, the minimum wage remains ***below*** the level required for a single parent to earn enough to provide the necessities for themselves and a child.

Working full-time at the minimum wage, an individual would earn an after-tax income of $10,912.[5] This figure does not include the cost of health care, pension and other benefits. This annual income is below the national poverty rate for a family of one adult and one child ($11,483), one adult and two children ($13,423) and two adults and two children ($16,895). In order for an adult working full-time to earn enough to meet the federal poverty guideline for a family of two, the minimum wage would need to be set at $5.52. For a single parent with two children, the minimum wage would need to be at least $6.45.

Poverty Income Threshold
1999

	Annual	Hourly Wage
Two people: one parent (under 65) and one child	$11,483	$5.52
Three people: one parent and two children	$13,423	$6.45
Four people: two parents and two children	$16,895	$8.12

Critics argue that raising the minimum wage will result in higher unemployment as employers will have to pay more for their workers. This fear has proven to be unfounded. Despite the 1996-1997 increase in the minimum wage, unemployment rates for workers of all ages and demographic groups fell.

Following the 1996 and 1997 increases in the minimum wage, the unemployment rates for teenagers and minorities – those groups most likely affected by the minimum wage – continued to decline. Between 1996 and 1999, the unemployment rate for teenagers fell from nearly 17 to 14 percent, the Africa-American unemployment rate fell from 10½ to 8 percent and the unemployment rate for all minorities fell from approximately 9 to 7 percent. Similar patterns have also occurred in states which have recently raised their minimum wage above the federal level.

Raising the minimum wage during periods of economic expansion is likely to erase any potential adverse effects. Stronger economic growth makes it easier for firms to afford the wage increase. In addition, the number of workers earning the minimum wage should be expected to decline as the labor market tightens.

[5] After-tax income is obtained by subtracting the payroll tax and adding back the Earned Income Tax Credit.

Raising the minimum wage during a period of tight labor market, which is currently the case, can actually result in ***higher*** employment over the long run. Firms may be more willing to train their workers, including those receiving the minimum wage, which will increase their productivity and expand the economy. With this in mind, President Clinton and the Democrats in Congress strongly support an increase in the minimum wage.

What should be done to restore the value of the Minimum Wage?

Senator Kennedy and 26 co-sponsors have introduced the Fair Minimum Wage Act (S 192) which would raise the minimum wage by $1 over 2 years (from $5.15 to $5.65 and then to $6.15). A companion bill was introduced in the House of Representatives by Congressman Bonior and 151 co-sponsors. This increase would bring the real value of the minimum wage back to its 1979-1980 level. Republicans are conditioning approval of the increase on tax breaks for the wealthy. Although raising the minimum wage will not fix all the problems faced by many lower-income Americans, it does serve as a safety-net.

At the very least, the minimum wage should be tied to, and move with, the federal poverty rate for a family of four. It should also be linked to inflation. This would eliminate the necessity for continuous legislative adjustment to maintain its value.

IV. Living Wages

States and localities are free to set their "minimum wages" above the federal minimum wage. Frustrated by the continued erosion in the real value of the federal minimum wage and the difficulties associated with raising it, a diverse collection of cities and municipalities are spearheading local efforts to guarantee workers a "livable wage" – not an arbitrary wage by one that is calculated to enable workers to afford basic needs. Full-time workers should be paid enough to meet basic needs and government should not subsidize, encourage, or provide incentives to firms to pay below-poverty wages.

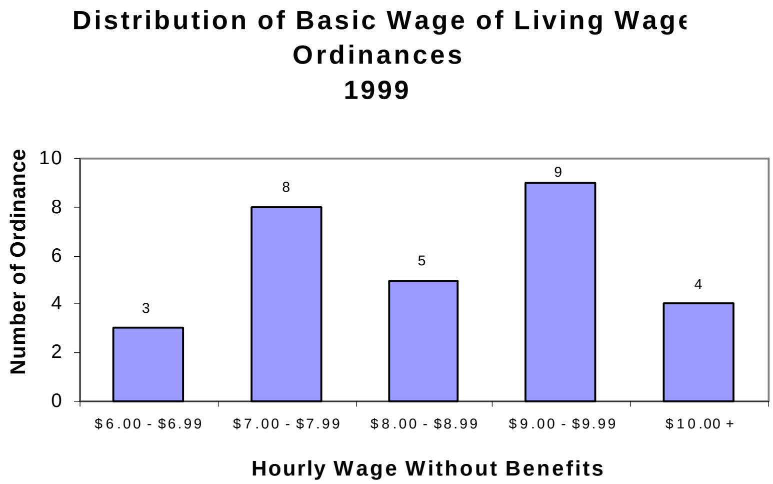
The minimum wage, even with the increase currently being considered, does not provide workers with enough income to keep a family above the poverty line. Combined with the arduous manner in which the minimum wage is increased, even to just keep pace with inflation, it no longer fulfills its original purpose and needs to be changed.

Cities and Counties With Living Wage Ordinances
and Year Introduced

Buffalo	NY	1999	Oakland	CA	1998
Cambridge	MA	1999	Pasadena	CA	1998
Corvallis	OR	1999	San Antonio	TX	1998
Dane County	WI	1999	San Jose	CA	1998
Hartford	CT	1999	Boston	MA	1997
Hayward	CA	1999	Duluth	MN	1997
Hudson County	NJ	1999	Los Angles (city)	CA	1997
Kankakee County	IL	1999	Minneapolis	MN	1997
Los Angles County	CA	1999	New Haven	CT	1997
Madison	WI	1999	St. Paul	MN	1997
Miami-Dade County	FL	1999	Jersey City	NJ	1996
Somerville	MA	1999	New York City	NY	1996
Tucson	AZ	1999	Portland	OR	1996
Ypsilanti	MI	1999	Milwaukee	WI	1995
Chicago	IL	1998	Santa Clara County	CA	1995
Cook County	IL	1998	Baltimore	MD	1994
Detroit	MI	1998	Oakland	IN	1991
Durham	NC	1998	Des Moines	IA	1988
Multnomah County	OR	1998			

The Living Wage ordinance which fueled much of the current movement was instituted in Baltimore in 1994. It set a base wage higher than the minimum wage at the time ($6.60 an hour, increased in two stages to $7.70 in 1999) for workers employed under city service contracts. By January 2000, Living Wage ordinances had been enacted in 41 cities or counties nationwide, nearly a third of which (16 cities and 7 counties) had been introduced within the last 2 years.

Most Living Wage ordinances apply to employees working under municipal contracts (similar to the original Baltimore ordinance), though several new ones have been expanded to include businesses that receive subsidies or tax abatements. Each ordinance is unique to each locality, but all variations cluster around 3 themes: (1) who is covered/affected; (2) what is the wage/benefit; and (3) how it is implemented in order to maintain purchasing power. Many ordinances have exemptions, such as for non-profit organizations and summer youth programs. Wages range from $6.25 per hour (Des Moines) to $11.42 per hour in Kankakee County, Illinois (passed in September 1999). Wages under most ordinances are indexed either to a poverty rate, the inflation rate, or another appropriate index.



Source: "Living Wage Ordinances as of May 1999," Economic Policy Institute.

Nearly half of the Living Wage ordinances require employers to provide some sort of health benefit or premium. Eleven Living Wage laws require an additional $0.75 to $1.50 an hour if health benefits are not offered (most require an additional $1.25). One (Jersey City) requires $2,000 a year to pay for benefits, and two require that the wage be calculated on a higher percent of the federal poverty rate than if benefits were offered. One (Santa Clara County, California) simply mandates that health benefits be offered.

In addition to instituting a higher wage, policymakers are debating other mechanisms for assisting low-wage workers to purchase health coverage as part of Living Wage legislation. These include a local tax credit for health care similar to the Earned Income Tax Credit; mandating that the employer contribute funds into a local or regional health care purchasing entity on behalf of workers; or contributing additional money directly into a medical insurance and/or health care expense account.

Essentially, Living Wage ordinances differ from the minimum wage in that they cover fewer people, mandate wages above the minimum wage, and include some kind of mechanism for automatic increases. Research on ordinances already enacted and analysis of business surveys indicate little adverse affect on employment as a result of living wage programs.[6]

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[6] In 1999, the Jerome Levy Economics Institute surveyed small businesses to gauge their response to various levels of a minimum wage. More than three-quarters of the respondents replied that their employment practices would not be affected by a minimum wage increase of up to a total of $6.00 per hour. Levin-Waldman, Oren, "The Minimum Wage Can Be Raised: Lessons from the 1999 Levy Institute Survey of Small Business," *Policy Note Number 6*,

Three comprehensive studies analyzed the impact of a Living Wage ordinance after implementation in Baltimore and Los Angeles. One study found that no company with a Baltimore city service contract reduced its staffing in response to the new law. At the same time, the real cost of city contracts ***decreased*** after the Living Wage went into effect, and although the number of bids on each contract decreased, the decline was statistically insignificant. Another study examining the law's impact after 2 years, found that it helped a small number of workers at little additional cost to Baltimore.[7] Unfortun-ately, the study also found that many companies did not comply with the ordinance and that many employees did not see a very noticeable increase in income, since their work was part-time or seasonal.

The cost of Living Wage ordinances is relatively small to business. According to Dr. Robert Pollin, author of *Living Wage* and studies of several ordinances, Los Angeles' living wage ($8.64) raised total costs by up to 1½ percent for the average covered business.

The erosion of the real value of the minimum wage, and the difficulties in raising it, coupled with the increase in the number of workers who do not have health insurance and other basic benefits, make Living Wage ordinances very attractive. These ordinances are a creative way to address a real problem.

What should be done to expand Living Wage ordinances?

Individual cities and counties should be encouraged to adopt Living Wage ordinances. Laws already exist which require firms with federal contracts to pay their employees a wage at least as high as the prevailing wage for that job (as established by the Department of Labor). A better option would be to insist that any employee working on any federal contract be paid at least the minimum required for a family of three to remain above poverty, or the prevailing wage for that position, which ever is higher. The Department of Health and Human Services could also develop a program to facilitate and partially fund regional and local programs for local health cooperatives and other experiments in providing health coverage tied to Living Wage ordinances. Another option is to require employers to devote $1 an hour for health insurance. Best practices learned from these experiments should be communicated to other interested cities.

1999.

[7] "The Effects of the Living Wage In Baltimore," Economic Policy Institute, 1999.

V. The Aftermath of Welfare Reform

Welfare reform is another factor adversely affecting the average income of the poorest families. A key goal of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 was to “end the dependence of needy parents on government benefits.” In January 1993, 14.1 million people were on welfare. By March 1999 that figure had fallen to 7.3 million — a 48 percent drop. An August 1999 report by the Council of Economic Advisors attributes nearly 36 percent of that decline to the unusually strong labor market, and 10 percent to the increase in the minimum wage in 1997. This only explains half of the decline in the welfare rolls. What happened to the others?

A significant minority of those leaving welfare have essentially “disappeared” from the official statistics. The 1999 GAO review of all the broad state studies on former welfare recipients (17 states) found that significant numbers of families could not be located. Even those studies that used ‘administrative data’ (matching families to other records including employment and other public assistance) missed 8 to 18 percent of families in its count. Researchers are currently not able to comfortably explain this troubling phenomenon.

Overall, the evidence suggests that many of those people leaving welfare are working. The Urban Institute found that 61 percent of former welfare recipients were working in 1997, a rate that was higher than that for similar low-income mothers who were not on welfare.[8]

Yet claims of success may be premature. One of the most troubling early findings is that even among the early group of welfare leavers **B** whom many researchers felt would be the easiest to employ **B** staying off public assistance has proven to be difficult. The Urban Institute’s survey of those who left welfare during 1995 and 1997 found that 29 percent returned to the welfare rolls. Meanwhile, a significant portion of those who managed to stay off welfare were receiving other benefits, such as food stamps and housing assistance.

Many researchers have cautioned that the most difficult-to-assist welfare recipients remain on welfare rolls and that a notable slow-down in the decline of welfare recipients should be expected over the coming years. A 1997 Urban Institute study found that more than half of welfare recipients in 1991 "experienced a serious form of at least one potential barrier [to employment]." Although the law does allow for 20 percent of a state’s welfare population to be exempt from the five year time limit on benefits, this figure can not cover all former welfare recipients with disabilities, low basic skills, substance abuse, and domestic violence.

Additional data show that across the nation, the income of the poorest of the poor is declining again after gains in the mid-1990s **B** at least partially due to the huge drop in the number of welfare recipients. A recent Center on Budget and Policy Priorities study found that the average income of the poorest 20 percent of single mothers with children improved by almost 14 percent between 1993 and

[8] Loprest, Pamela, "Families Who Left Welfare: Who Are They and How Are They Doing?" Number 99-01, Urban Institute, Washington, DC: 1999.

1995, but ***declined*** by almost 7 percent from 1995 to 1997, during which time welfare reform was being fully implemented.[9]

Many former welfare recipients with jobs earn the minimum wage or slightly more – not enough for a family of four or even three to live above the poverty rate. More than half (57 percent) of the former welfare women surveyed in the Urban Institute study had family incomes ***below*** the federal poverty line. Indeed, 66 percent of children who had been on welfare lived in families with incomes below the poverty line.

Another significant problem facing this group is that many former welfare recipients still can not afford health coverage. The Urban Institute found that 41 percent of adults and 25 percent of children who used to be on welfare did not have public or private health insurance. Understandably, given the high cost of medical care, families without health coverage are unlikely to be able to remain off welfare assistance.

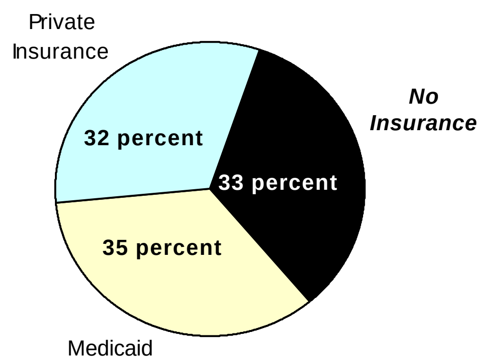
Lack of affordable and accessible health coverage is one of the most significant problems for welfare leavers and low income families. Another analysis by the Urban Institute found that a year or more after having left welfare, nearly half of the women (49 percent) and a third of the children (30 percent) were without health insurance coverage, despite the fact that the majority of the women were working.[10]

The longer women were off welfare, the more likely they were not to have any health insurance. This was partly due to the fact that transitional health insurance programs for those leaving welfare had expired. The Family Support Act of 1998 required states to provide Transitional Medicaid Assistance for six months to all families who leave welfare because of increased earnings, and another six months of coverage to those whose family income is 185 percent of the federal poverty rate or less (after child care expenses). Surprisingly, of those who left welfare in the preceding six months, 34 percent were uninsured – even though all should have been offered government health coverage. The percent of uninsured rises to 49 percent, after being off welfare for more than a year.

[9] Primus, Wendell, et. al., “The Initial Impacts of Welfare Reform on the Economic Well-Being of Single Mother Families,” Center on Budget and Policy Priorities, Washington, DC: 1999.

[10] ***Health Affairs,*** January/February 2000.

Health Insurance Coverage for Employed Former Welfare Recipients



Source: Loprest, Urban Institute.

Welfare reform was supposed to encourage economic independence, but an Urban Institute study found that having a job does not alone guarantee adequate health coverage. Although more than half of those who left welfare had a job, one third of these working parents remained dependent on Medicaid and another third had no health insurance at all. In fact, according to another recent Urban Institute study, only 23 percent of all ***employed*** former welfare recipients received their health coverage from their employer in 1997. The others, who had some sort of private insurance, were covered by their spouses' health plan.[11]

Of those children whose custodial parent was employed, 45 percent were dependent on Medicaid or state assistance and 23 percent had no health coverage at all. Although this compares favorably with health care coverage for adults, more than 1 in 5 children – whose parent worked – did not have any health coverage. Despite the existence of special health care programs for children formerly on welfare, 41 percent of these children did not have health coverage.[12]

A significant minority of former welfare recipients had more difficulty getting enough food and paying utilities than other families at the same income level. The Urban Institute study of mothers who left welfare during 1995 to 1997 found that one third had to cut the size of a meal or skip a meal because they could not afford food, compared to only 25 percent of other mothers with similar income levels. Even more, 39 percent, had difficulty paying mortgage, rent, or utility bills, versus only 29 percent of other mothers with similar income levels.

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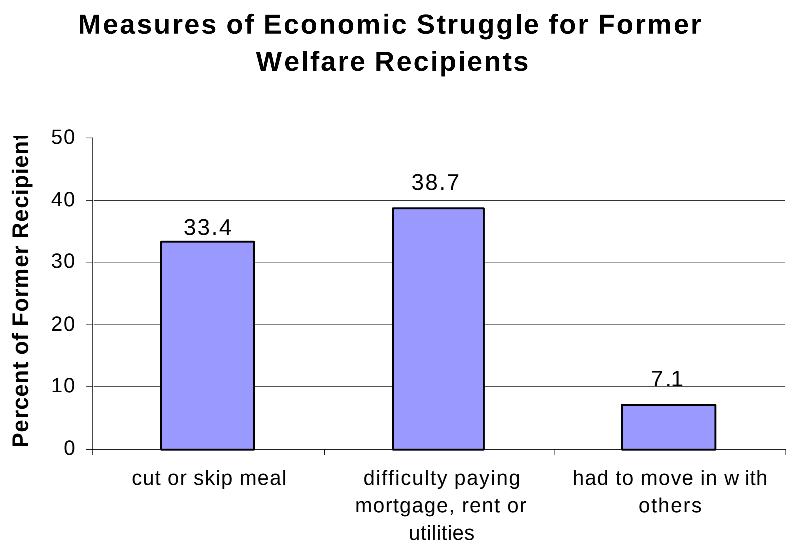
[11] Loprest, Pamela, 1999.

[12] See further discussion of CHIP below.



Source: Urban Institute,***Families Who Left Welfare*** , 1999.

The "success" of welfare reform should not just be measured by the number of people receiving welfare. Although the number of welfare recipients may have fallen, many former welfare mothers and their children are worse off now than when they were on welfare. Getting people off welfare should not be our sole objective. Welfare-leavers must be able to earn enough to provide a basic standard of living for their families. The apparent loss of health insurance among those leaving welfare is placing an additional heavy burden on those people who are already facing severe economic difficulty and on the hospitals that serve them.

What should be done to assist welfare leavers?

Lack of adequate health coverage is a major problem among the poor and the working-poor, as it is for all middle-income families. Instituting universal health care coverage would be the most effective way to expand coverage to those currently without health insurance. Universal coverage would eliminate the need to worry about such things as welfare leavers and their children. It would also address one of the major factors pushing families into poverty.

In the absence of universal health coverage, other steps should be taken to ensure adequate coverage for poor families. Enrollment in Medicaid for at least 6 months should be automatic for families leaving welfare, without requiring any additional steps, as is currently the case. Vice-President Gore has proposed extending Medicaid coverage to parents of children enrolled in the Children's Health Insurance Program (CHIP).

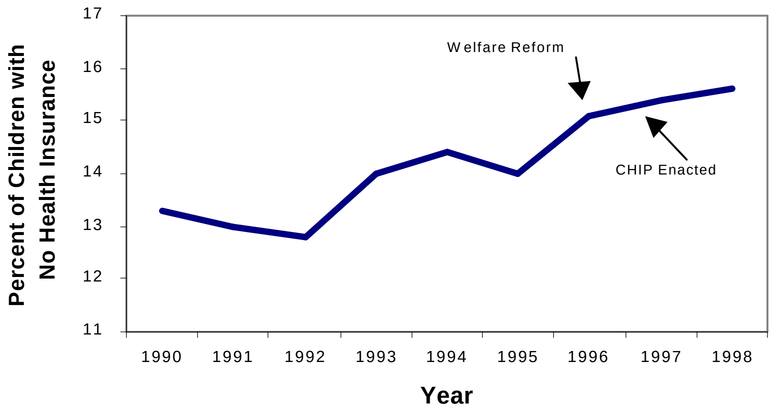
Additional assistance needs to be provided to those families who have left welfare, found jobs and are still experiencing economic hardship. A variety of existing programs can help, along with some changes in the way welfare is administered. For example, expand the Earned Income Tax Credit; do not count time spent in training programs toward the 6 month time limit; increase funds available for subsidized child care and transportation to work programs; increase the income limits on welfare enrollment; and expand vocational training opportunities. Other options include, encouraging states to be more effective in increasing the actual economic well-being of welfare and former welfare recipients; and expanding the High Performance Bonus. The Bonus should also include a measure of the rate of Food Stamp and Medicaid participation as a percent of all those who were eligible, to ensure that states do not continue to underutilize other support programs.

For the currently unemployed and former welfare recipients, programs to improve their employment prospects need to be expanded to include health care, food stamps, and housing assistance. Programs should be extended to address the significant barriers to employment faced by many poor adults, such as alcoholism, domestic violence, poor education and work skills. Adequate funds should be provided for outreach. The Children's Defense Fund calls for all parents who are unable to find a job after the expiration of their welfare benefits, to be provided with a public job (subject to verification of the unavailability of private employment).

VI. Children's Health Insurance Program

The proportion of children without any health coverage has been rising since 1992, with the exception of a small decline in 1995. In 1992, more than 13 percent of all children under 19 had no health coverage and by 1996 – the year welfare reform was enacted – the uninsured rate had risen to more than 15 percent. At the same time, the proportion of children covered by private plans steadily declined from 71½ percent in 1990 to approximately 67 percent in 1995.

Children with No Health Insurance
1990 to 1998



Source: Smith, "Health Insurance Coverage of Children," CRS, January 12, 2000.

In 1998, almost 12 million children had no health insurance. Teenagers now make up a disproportionately high percentage of all uninsured children. Seventeen percent of teenagers under the age of 19 are uninsured, and 15 percent of children between the age of 1 and 12 are uninsured. About 80 percent of those uninsured kids had a parent that worked at least part-time. Fifty-eight percent had a parent that worked full-time year-round but were still without health coverage.[13]

One of the main criticisms of welfare reform concerns its potential negative impact on children in low-income families. Since income assistance and Medicaid enrollment often occur togther, many members of Congress were concerned that millions of children would be without health insurance due to welfare reform. To address this problem, Congress enacted the State Children's Health Insurance Program in 1997, referred to as CHIP or S-CHIP.

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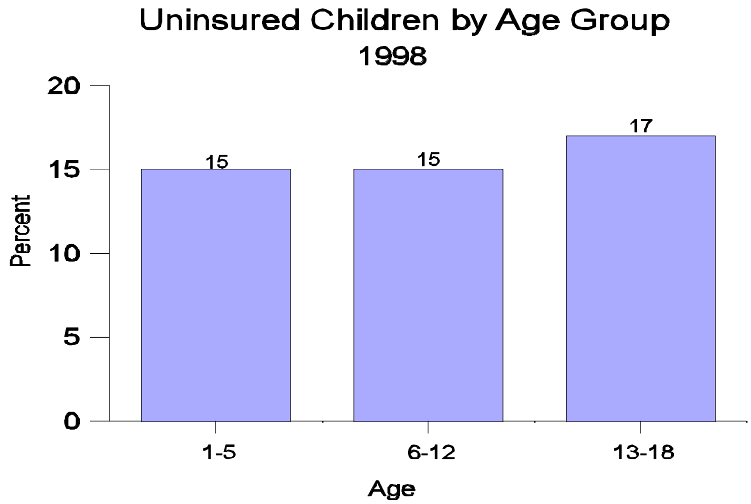
[13] Smith, Madeleine, "Health Insurance Coverage of Children," Congressional Research Service, January 12, 2000.



Source: Kaiser Commission,*1998 Health Insurance Coverage.*

CHIP is a combined federal-state program, with the federal government contributing at a higher rate in each state than it does for Medicaid. CHIP does not guarantee coverage, but encourages states to expand their Medicaid coverage to include uninsured children. The program was originally funded for only 5 years, with the goal of enrolling 5 million kids by FY 2002. By June 1999 only about a million children had enrolled in the program.

CHIP is considerably short of meeting its five-year goal; only one-fourth of funds allocated for the program were spent in 1999. Outreach has been hampered by the fact that only 10 percent of disbursed funds can be used for administrative costs, which could be used to promote the program and increase enrollment. There is still a significant lack of awareness of the program among individuals moving off welfare to a job with no health insurance. Nonetheless, more must also be done to get individuals discouraged from going on welfare rolls to enroll their kids in CHIP.

What should be done to expand CHIP participation?

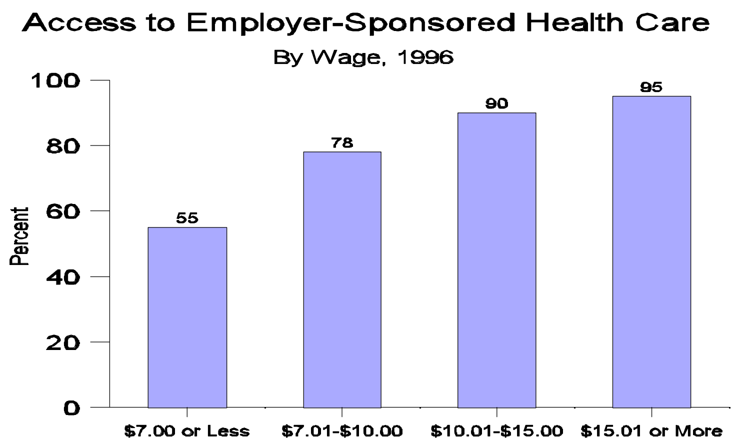
There are a variety of things which should be done to expand health care coverage of children. First, further improvements are necessary for CHIP to meet its objectives. Increased administrative funds need to be allocated so that all states can begin significant outreach and improved training for providers. Congress should appropriate additional funds specifically for outreach and staff training. Alternatively, Congress should expand the portion of state grants that can be used for this function. States should also continue to be tracked on their success rates in ensuring that all children are covered 6 months after leaving welfare. In addition, states should be encouraged to increase their program coverage. This will likely require additional federal funds. In February, the Administration proposed several actions aimed at improving CHIP’s implementation, including allowing school lunch programs to share information with Medicaid so that a higher proportion of eligible children are enrolled in both Medicaid and CHIP; expanding the sites authorized to enroll children; and requiring states to simplify enrollment procedures.

The Medikids program, initially proposed by Representative Sabo, would address the needs of middle income families who do not have health coverage for their children. The program would cover children in families living at up to 3 times the federal poverty level. With a federal matching grant (75 percent federal share/25 percent state share) these children would be eligible for an expanded state-sponsored Medicaid package or would receive assistance in purchasing private insurance (most likely at a sliding-scale).

VII. The Growing Number of Adults Without Health Insurance[14]

Forty-four million non-elderly Americans lacked health insurance in 1998, 6 million ***more*** than in 1992, when the current economic expansion began. Health care coverage continues to decline, despite economic prosperity.

The US system of health insurance is one of the few in the world that is structured around the workplace. In recent years, small businesses have accounted for more than three-quarters of the job expansion. Yet, between 1996 and 1998, the percentage of small business employees with employer-sponsored health coverage dropped from 52 percent to 47 percent. In 1998, only 54 percent of small firms offered health coverage, down from 59 percent in 1996. Currently, 70 percent of the uninsured are full-time workers or dependents of full-time workers.



Source: Cooper and Schone, "More Offers, Fewer Takers for Employment Based Health Insurance: 1987-1996", ***Health Affairs*** (Nov/Dec, 1997)

A deterioration in health care coverage of low income workers has further widened the gap between the rich and the poor. Between 1987 and 1996, health insurance coverage rates for low-wage workers fell from 54 percent to 42 percent while coverage for the highest paid workers increased from 87 percent to 90 percent. Most recent data (1996) suggest that only 55 percent of low-wage workers ($7 per hour or less) have access to job-based coverage, compared to 95 percent of high-wage workers (earning more than $15 an hour).

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[14] This section relies heavily on three sources: Hewitt Associates for The Henry J. Kaiser Foundation, "Retiree Health Coverage: Recent Trends and Employer Perspectives on Future Benefits," October, 1999; The Kaiser Commission on Medicaid and the Uninsured, "Uninsured in America, A Chart Book," June 1998; The Kaiser Commission on Medicaid and the Uninsured, "Health Insurance Coverage of Low Wage Workers," June 1998.

In addition, many who have stopped working are dependent on health coverage received under previous jobs. Employer-provided health benefits are the leading source of supplemental coverage for Medicare beneficiaries and the largest source for supplemental prescription drug coverage. However, employer-based coverage for retirees is on the decline, with many large companies dropping coverage and fewer new companies adding it. A number of trends have surfaced in recent years: fewer large companies offer post-retirement health benefits; financial caps are being placed on employers' contributions; eligibility requirements are being tightened; and more employers are offering managed care Medicare plans. A recent study shows that between 1991 and 1998, health coverage provided by large employers for retirees above the age of 65 declined by 13 percentage points. For those retirees younger than 65, coverage declined by 12 percentage points. In addition, the percent of companies that require retiree contributions rose from 73 percent in 1991 to 92 percent in 1998.[15]

What should be done to improve health care coverage for adults?

The United States is the only advanced industrial society that does not provide some sort of universal healthcare. In the last year a number of legislative bills have been introduced in Congress to move the United States more towards such a system. One bill (HR 2227) extends COBRA coverage until the age of Medicare eligibility for individuals who are age 55 or older. Another bill (HR 2228) would allow middle-income workers aged 55 to 60 to buy into Medicare. If enacted, this legislation would reduce the number of uninsured by 400,000 Americans. Both of these approaches improve Americans' access to healthcare by either extending government-sponsored plans, like Medicare, or expanding employer-sponsored plans. Both types of coverage should be expanded to give all Americans the peace of mind of knowing that they would be covered should they fall ill.

[15] Hewitt Associates for The Henry J. Kaiser Foundation, "Retiree Health Coverage: Recent Trends and Employer Perspectives on Future Benefits," October, 1999.

VIII. Prescription Drug Coverage and the High Cost of Medication

The decline in health care coverage is only part of the problem facing Americans. Another part of the problem is rising health care costs. Prescription drug costs are the single largest out-of-pocket medical expense for seniors, many of whom have moderate incomes. In 1994 and 1995, 76 percent of seniors had incomes below $30,000 and the average senior paid $558 for prescriptions. This compared to an average of $355 spent by 55 to 64 year-olds during the same period. By 1999, spending on outpatient pharmaceuticals had ballooned to roughly $1,000 per Medicare beneficiary.[16]

Medicare provides health insurance for 34 million seniors and 5 million disabled persons B virtually everyone 65 and older is insured by Medicare. Although Medicare provides a broad range of basic health care services, it does not include coverage of outpatient prescription drugs. Only one-third of all Medicare beneficiaries in 2000 are estimated to have a consistent prescription drug benefit through a supplemental plan. Over 13 million of Medicare beneficiaries do not have prescription drug coverage at all.[17]

Medicare beneficiaries with no supplemental drug coverage are the hardest hit. They fill one fourth fewer prescriptions than those with full-time coverage, yet face higher total out-of pocket costs during the year. In fact, seniors without prescription drug coverage pay higher prices for medications than any other group. A 1993 survey found that 1 in 8 seniors reported having to choose between medicine and food at some point during the year.[18]

Since 1980, drug expenditures have grown by double digits, far more than total health care expenditures. In 1998, drug expendi-tures grew by more than 15 percent, almost three times the growth of total national health care expenditures. Most of the growth in drug expenditures can be traced to a significant increase in volume, mix and availability. However, as prescription drugs have become more important to overall health care and new, effective medicines have become available, people who rely most on prescription drugs B the elderly and the disabled B have found their access increasingly denied.

The proportion of firms offering retiree health coverage declined by 25 percent from 1994 to 1998. Medigap premiums for drugs remain high and increase with age; the value of Medicare managed care benefits keeps declining; and participation of Medicaid eligible populations remains low.

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[16] Gluck, Michael, "A Medicare Prescription Drug Benefit," The National Academy of Social Insurance, April 1999.

[17] Actuarial Research Corporation for the US Department of Health and Human Services.

[18] ***American Pharmacy***, October, 1992; HCFA Office of Strategic Planning, Data from the Current Beneficiary Survey, cited in staff documents, Medicare Commission; Department of Health and Human Services, unpublished data; Committee on Government Reform and Oversight, US House of Representatives, Minority Staff Report, “Prescription Drug Pricing in the United States: Drug Companies Profit at the Expense of Older Americans,” October 20, 1998.

At the same time that prescription drug costs are rising and less people are covered by any kind of insurance, profit rates B calculated after expenditures for R&D are removed B for the drug industry have reached close to 20 percent, four times larger than the average profit rates for other industries. According to *Fortune*, the pharmaceutical industry was the most profitable industry in 1998. The stock prices of the top pharmaceuticals achieved average annual gains of 24 percent since 1984, versus almost 15 percent for the S&P 500 as a whole.

Concerns about rising prescription drug costs, the desire to enable more seniors to take advantage of new, effective medications, and arguments that proper use of medications can decrease the reliance on other, more expensive treatments have led to various Congressional proposals to incorporate a universal prescription drug benefit into Medicare. It is difficult to precisely predict all the potential impacts of the various prescription drug proposals. However, studies have shown that drugs can be used as effective substitutes for other kinds of treatment, potentially reducing total health care costs.[19] For example, proper use of medications can be expected to decrease hospital and nursing home costs.[20] Also, a Medicare drug benefit provides a means for tracking drug use, thereby reducing adverse drug interactions. According to the General Accounting Office, Medicaid's automated drug utilization system reduced adverse drug reactions and saved more than $30 million in 5 states.

What should be done to help people afford prescription drugs?

Twenty-five million Medicare beneficiaries do not have dependable and affordable outpatient prescription drug coverage. Americans of all ages look to Medicare for guaranteed coverage as part of the foundation of their retirement planning.

Accordingly, Representative Stark introduced the "Access to Prescription Medications in Medicare Act." This legislation meets the needs of present and future Medicare beneficiaries by offering a comprehensive drug benefit that restrains ballooning prescription drug prices. By giving beneficiaries the same marketplace power as others already insured, the bill tackles the glaring price discrimination that seniors now are forced to face. It provides a universal Medicare drug benefit with a $200 deductible and 20 percent coinsurance for seniors and disabled persons up to $1,700 per year. Medicare beneficiaries with very high drug expenses will get all of their drug costs paid by Medicare after $3,000 in annual out-of-pocket spending. This plan merges cost containment with a voluntary benefit that is universal, affordable, and also covers catastrophic care.

It appears that the Republicans do not intend to go forward with ***meaningful*** prescription drug legislation this year. On February 16, 2000, Representatives Stark and Shows filed discharge petitions on the "Access to Prescription Medications in Medicare Act" (HR 1495) and the "Prescription Drug Fairness for Seniors Act" (HR 664). These petitions were the only means of forcing the House to address the crucial issue of affordable access to prescription drugs for seniors and the disabled. Both petitions call for bringing each of these bills to the House floor for consideration as soon as possible, without conditions.

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[19] See for example, the Employee Benefit Research Institute.

[20] See ***New England Journal of Medicine***, March 4, 1999.

Both the Republicans and the pharmaceutical industry are stalling due to their concern for industry profits. However, a number of Wall Street analysts have stated that a Medicare drug benefit could be positive for the pharmaceutical industry, with incremental volume gains more than offsetting any price pressures. Studies have suggested that drug utilization increases dramatically when coverage is provide to the uninsured. In the end, a prescription drug benefit will result in healthier seniors, higher quality care, a curb in overall medical costs, and a more profitable pharmaceutical industry.

IX. The Social Consequences of Globalization

The US economy has become much more integrated into the world economy over the last 20 years. Once it was rare for a US firm to have operations in other countries. Now, these same firms are probably owned by a group of US and international investors. It is difficult to determine what constitutes an "American company."

The flow of all goods and services traded between the United States and the rest of the world currently amounts to more than $2 trillion, double what it was just 10 years ago. More firms are trading in more countries than ever before. Although there are benefits to this increased trade, there are also significant social consequences. The challenge facing the nation is how to participate in this process of globalization, without hurting workers and the environment, here at home and abroad.

International trade accents the differences in domestic policies and practices. One nation's labor and environmental standards can be considered excessive by some of its trading partners and inadequate by others. Except for the major industrialized countries, very few other countries adhere to universally-accepted basic standards on labor practices, like the prohibition against slave and child labor. Even fewer countries provide workers the right to organize for independent trade unions. This raises many questions when two countries, with different labor standards begin trading with one another.

People and firms in countries with high labor standards may find it cheaper to import goods from countries with lower labor standards, rather than produce them at home. In addition, consumers may not know the labor and environmental conditions under which the products they buy were made. The net result is that the country with the higher labor standards loses production and jobs, and there is an implicit endorsement of the lower labor standards of the other country. Policies should be pursued which have the opposite outcome B increase production and employment here at home and encourage higher labor standards around the world.

Much of the recent increases in trade, primarily imports into the United States, come from countries that have low labor standards, and in fact do not even provide their workers with basic fundamental rights. As the major promoter of democracy and individual freedom around the world, the United States should do all that it can to encourage the adoption of higher labor standards abroad, and certainly should not be engaged in trade that endorses low standards abroad and displaces good paying jobs in the United States. Trade with low income countries should not merely exploit their lower wages.

A similar, but more intractable challenge exists concerning the environment. The production of goods and services depletes resources B everything from non-renewable resources like oil and coal to renewable resources like trees. As in the case of labor standards, all countries have different environmental laws and protections. The challenge is for the United States to protect its environment, without jeopardizing the environment in other parts of the world. Currently, the United States avoids domestic production in order to save its environment, only to import goods from abroad, thereby harming another country's environment. The United States should not be encouraging the abuse of the environment either at home or abroad. Instead, it should encourage all nations to adhere to high standards to protect the environment.

What should be done to protect workers and the environment?

As a first step, all countries should be encouraged to adopt the four internationally-recognized "core" labor standards developed by the International Labor Organization (ILO) **B** freedom from forced labor, freedom of association and the right to organize and bargain collectively, the effective abolition of child labor, and nondiscrimination in employment. Fair and decent labor standards do not inhibit trade or global economic growth. The growth of the industrialized economies over the last 50 years is testament to that.

The gains from trade must be better shared with the workers who make the goods and services which are traded. All firms should pay their workers fair compensation. A firm's success should be shared with its workers, thereby encouraging them to be more productive. Trade should not be a "race toward the bottom" that forces countries to compete on the basis of low wages, poor working conditions, and disregard for the environment. Work should raise people out of poverty and provide them with a standard of living which enables them to provide for the health and welfare of their families.

It will be more difficult to achieve high and internationally agreed-upon environmental standards. First, there is no international organization, similar to the ILO, as in the case of labor, to provide a forum for countries to develop environmental standards and to help countries meet those standards. Although there are a lot of commonalities in terms of environmental protection, each country also has its unique environmental concerns.

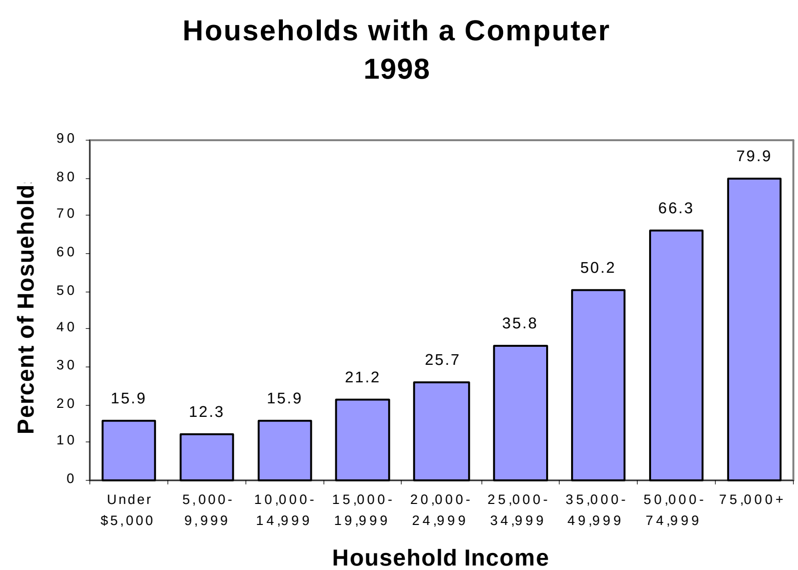
The first thing that needs to be done is to improve international awareness of the impact of trade on the environment, and the spill-over of environmental impact in one country on others. The only way to avoid exploitation of the environment is to develop some form of internationally-agreed upon standards. It is very important that these international standards not be the lowest common denominator. It should be the responsibility of the industrialized countries **B** those with the highest standards **B** to ensure that the internationally-accepted standards be meaningful in protecting the environment from further exploitation. In both cases of labor and the environment, technical assistance should be provided to countries in need and there needs to be strict monitoring of adherence to the internationally agreed-upon standards.

International trade should benefit everyone involved and should not be just a means toward avoiding laws and practices put in place to protect workers and the environment. In order to meet this objective, further efforts toward trade liberalization should be conditioned on the adoption of internationally-recognized labor standards and environmental protections.

X. Digital Divide

Technological advances, which are at the core of the current economic expansion, have the potential of further widening the gap between the haves and the have-nots. Most jobs already require that workers be comfortable using computers and the Internet. As with the development of other skills, the sooner a person begins learning them, the higher the probability that he or she will succeed in the workplace.

Recent studies find that computer use and Internet access correlate very strongly with income and education. According to the Department of Education, in 1998, 80 percent of households with incomes above $75,000 had a computer, versus 26 percent for households earning between $20,000 and $25,000. At the same time, 59 percent of those households with incomes above $75,000 used the Internet compared to only 20 percent of those households earning between $20,000 and $25,000.[21]



Source: National Telecommunications and Information Administration: 1999.

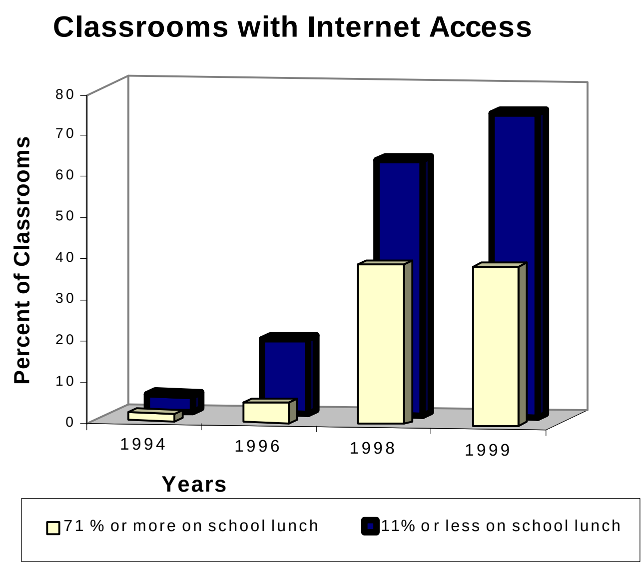
Computer and Internet use are significantly lower for minorities, even after controlling for income and education.[22] African Americans, Native Americans, Pacific Islanders, and Hispanics are all more likely to access the Internet outside their home, if at all.

[21] National Telecommunications and Information Administration, **Falling Through the Net: Defining the Digital Divide**, Washington, DC: 1999.

[22] National Telecommunications and Information Administration (NTIA) “Factsheet: Racial Divide Continues to Growth,” 1999.

The digital divide closes for minorities as their incomes rise over time. Between 1984 and 1998, African Americans at the highest income level measured (above $75,000) narrowed the difference between them and whites in home computer ownership by three-fourths.[23]

Although nearly all (over 90 percent) schools have some Internet access with little difference by income and geography, there are still substantial differences in the quality of Internet accessibility for students. Schools with a higher proportion of low-income students have significantly ***fewer*** proportion of classrooms with Internet access.



Source: US Department of Education, National Center for Education Statistics, Internet Access in US Public Schools and Classrooms: 1994-199," Washington, DC: 2000.

According to the Department of Education's survey, schools with higher concentrations of poverty are more dependent on state and federal support for Internet access than private resources. Forty-eight percent of schools with the highest concentration of students below poverty list the state or federal government as primary support instead of the local school district, compared to 14 percent of the schools with the lowest poverty rates.

What should be done to increase access to computers and the Internet?

In addition to improving computer access and learning at school, it is vital that ***all adults*** have improved access to computers and the Internet. The Commerce Department finds that Community Access Centers (CACs), which are schools, community centers and other places with broad public access, are

[23] "Factsheet," NTIA.

vitally important to those who do not have home access to computers.[24] CACs have been particularly valuable in rural areas and inner city neighborhoods. The Department also finds that those people with lower incomes and education, and many unemployed are using the Internet to search for jobs and take courses. Public access to technology for these groups may be vital to helping them advance economically, which may also help narrow the broader income gap.

[24] 1998 Census Bureau data.

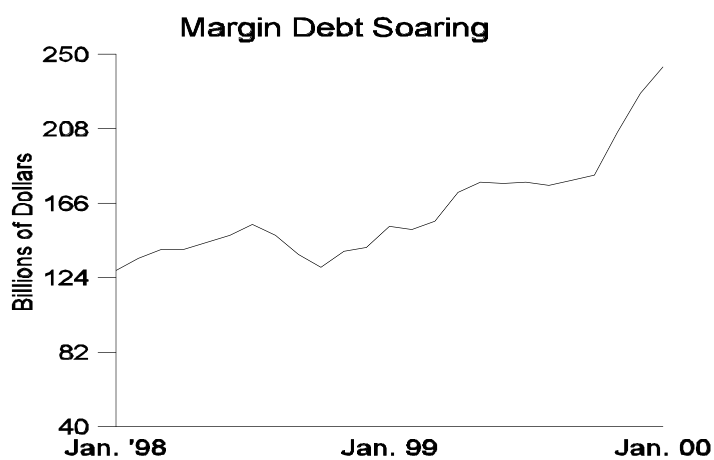
XI. Vulnerabilities

The current prosperity is not free of potential complications. The economy faces a number of external and internal factors which might make it vulnerable to economic slowdown or inflation in the future. The following section discusses some of those vulnerabilities.

The Stock Market

US financial markets have experienced a considerable run-up over the last 20 years. In addition, there has been a shift in the kinds of stocks attracting capital in the private market. The Dow Jones Industrial index grew by 334 percent between 1980 and 1989, and by 418 percent between 1989 and 1999. The NASDAQ index grew three-fold between 1980 and 1989 and ***nine-fold*** between 1989 and 1999. The sustained growth in both markets is unprecedented. There has also been a shift in investor preference from the traditional companies listed on the New York Stock Exchange to the young, technology companies listed on the NASDAQ.

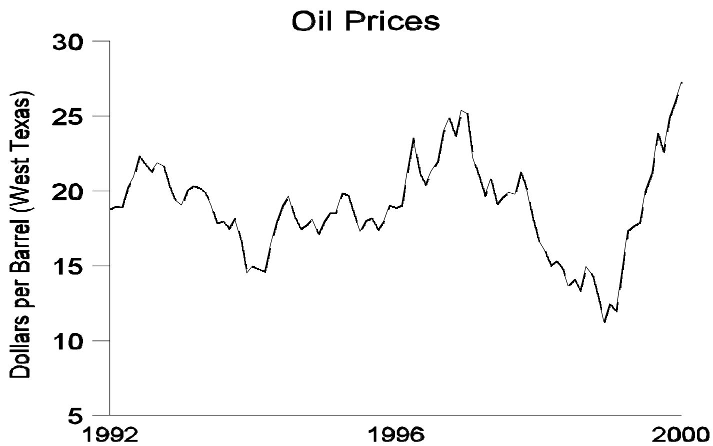
At the same time that stock prices have been soaring, margin debt has been growing. Margin debt grew by 60 percent -- or almost $90 billion in 1999. Between September 1999 and February 2000 alone, it jumped by an average of $20 billion per month. Until recently, the growth of margin debt remained proportional to market capitalization, but this is no longer the case. Margin debt is running well ahead of gains in the stock market – a sign that speculation is picking up. Heavily-indebted investors are more vulnerable to a market downturn because they may be forced by margin calls to unload portions of their portfolio. This, in turn, could further fuel a downturn, setting off a self-feeding downward spiral. The Federal Reserve has not responded to these early signs of excess speculation, but could consider raising margin requirements in order to stem a further build-up in debt.



Source: Federal Reserve Board.

Oil Prices

In recent months, there has been a significant increase in oil prices. An improving worldwide economy and output cuts by members of the Organization of Petroleum Exporting Countries (OPEC) in 1999 have sent prices soaring. Oil prices have almost tripled in the last year, fueling fears of inflation for the overall economy. Heating bills have escalated, especially in the northeastern part of the United States, and average gas prices have increased 40 percent in the last year around the country.



Source: Bureau of Labor Statistics.

The current oil price, although high, remains considerably lower than its price of $38 a barrel in 1980. However, oil inventories are extremely low. As oil inventories have decreased, the world market has become more vulnerable to supply shocks, such as a break in oil exports from Iraq. In addition, world demand for oil is projected to increase in 2000, since the world economy is expected to begin growing once again. This will make it difficult for OPEC to gauge the fine line between maintaining oil inventories and starving the world economy. The International Energy Agency estimates that OPEC would need to increase output by nearly 10 percent in order to keep pace with world demand.

Fortunately, the US economy is no longer as dependent on oil as it was during the oil shocks of the 1970s. Overall, oil comprised 3 percent of GNP in 1998, down considerably from nearly 9 percent in 1980. However, oil can still be a powerful drag on the industrialized economies. The Organization of Economic Cooperation and Development estimates that every $10 rise in the price of a barrel of oil lifts inflation by half a percentage point and reduces economic growth by a quarter percentage point. Although a return to the 1970s era of stagflation is unlikely, any unanticipated supply shock could fuel inflationary pressures and simultaneously act as a drag on the economy. In the final analysis, low and stable oil prices are best for the long-run prospects of the economy.

Cyclical Factors

It has long been understood that economies follow a business cycle, based on firm profitability. As firms' expectations of the economy improve, they tend to invest more. The economy consequently grows, unemployment falls, and wages increase, squeezing firms' profits. This "profit squeeze" compels firms to cut back their investments because of lower expected future profits. Less investment drags down economic growth and chokes off the amount of capital available to develop new technologies. The economy then enters a period of economic stagnation.

The US economy has followed this business cycle pretty closely over the last century. More recently, however, people have argued that changes in the structure of the US economy have made it less susceptible to the traditional business cycle. For example, recent advances in technology have made it possible for firms to maintain "just-in-time" inventories, thereby avoiding any serious build-up of inventories, one of the main consequences of the business cycle.

In addition, after 9 years of expanding, the US economy does not exhibit many of the trends which might indicate a pending slow-down. Productivity growth rates have accelerated during the last several years, rather than stagnate as in other mature expansions. Inflation has been falling, not rising, as expected given the long period of low unemployment. While these trends suggest that an economic down-turn is not imminent, they do not necessarily signal the demise of the business cycle.

Technological advances, particularly in the area of information technology, have been at the center of the current economic expansion. The revolution in information technology has been compared to the invention of electricity more than 100 years ago. It remains unclear how long the current technology-induced investment will continue. In the case of electricity, the subsequent investment wave began to level off, bringing about an economic slowdown. It remains too early to know if investment in information technology will follow that course, or set out a course of its own.

Monetary policy also plays an important role in understanding the path an economy takes. In the past, as unemployment rates fell, wages began to rise, igniting fears of inflation. To address these fears, the Federal Reserve has typically raised interest rates, thereby tightening the supply of money. Although a restrictive monetary policy might contain inflation, it can also pull the economy into recession. Once that occurs, the Federal Reserve might ease monetary policy in order to get the economy moving again.

The economic expansion of the last 9 years has been challenging to Chairman Alan Greenspan and his colleagues at the Federal Reserve. In contrast to previous expansions, there has been no evidence that wages have grown as a consequence of the historic low rates of unemployment. This has caused Mr. Greenspan, always vigilant of inflation lurking around the corner, to call for pre-emptive increases in interest rates in order to cut-off even the prospect of inflation. These pre-emptive moves, in and of themselves, risk causing the economy to slow down even though there are no signs of inflation.

There are many reasons why the economy might experience a downturn and, there is no evidence that the current expansion is immune from some of the internal dynamics that have characterized similar expansions in the past. Speculation about the death of the business cycle may be greatly exaggerated. The real risk to continued prosperity may be the overzealous implementation of monetary policy.

International Economic Environment

The strength of the US economy over the last several years has not been matched in the other industrialized countries. At above 4 percent, the US economy in 1999 grew almost 3 times faster than the average growth rates in France, Germany, Italy, Japan and the United Kingdom. Economic growth in Canada was a little less than 4 percent. Japan, once thought to be the "model economy" grew at less than 1½ percent in 1999, as it continued to recover from the East Asian financial crisis of 1997-1998.

Comparing growth rates is not just a contest of economic superiority. As the US economy becomes more open to the international economy, growth rates abroad take on increased significance at home. Exports and imports combined currently account for about a quarter of the US economy, and are a key factor in contributing to US economic growth. As foreign economies grow faster, they tend to buy more imports, providing US exporters with an opportunity to expand sales in those markets. Conversely, the US economy has been growing faster than the economies of our major trading partners, causing US imports from abroad to grow faster than US exports to foreign markets. This has contributed to the growing US trade deficit.

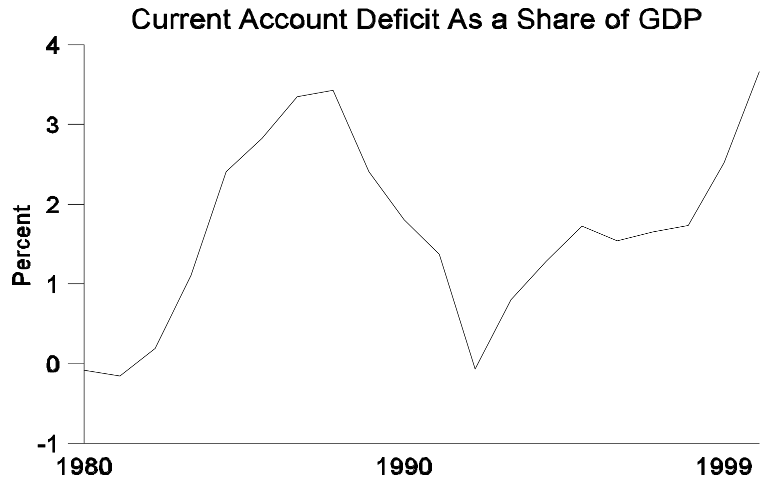
The East Asian financial crisis hurt the prospects of US exports and placed additional pressure on import-competing industries in the United States. In 1996, prior to the outbreak of the crisis, Japan, Korea, Singapore and Taiwan together accounted for approximately one-fifth of all US exports and imports. As a result of the financial crisis – which caused these economies to slow down and their currencies to depreciate – US exports to these four countries stagnated and US imports from them jumped considerably. Between 1996 and 1999, US exports to the four countries fell by 4 percent and US imports from them grew by 17 percent.

Differential growth rates and the East Asian financial crisis are just two examples of how important developments in the world economy are to the strength of the US economy. Over the next several years, growth rates in Europe and East Asia are expected to recover, thereby expanding markets for US goods and services. But as these major economies grow, so too might their exports to the United States. Thus although international economic conditions may improve, if US imports continue to grow faster than exports, the trade deficit will continue to worsen.

The ideal is for the international economy to grow at a healthy but steady pace. In order to achieve this goal, it is important to avoid economic shocks, such as increases in oil prices mentioned above, or minimize their impact on the international economy as soon as possible. Although countries have agreed in principle to meeting this objective, action has proven more difficult than words.

The Current Account Deficit

In 1999, the US current account deficit, the broadest measure of US trade in good and services, grew by 54 percent from the previous year, and reached $339 billion or almost 4 percent of GDP. The booming US economy, a strong dollar and weak overseas economies have contributed to a surge in imports and only a moderate increase in exports. These developments have placed pressure on the US manufacturing sector in particular. As a result, net manufacturing employment has fallen by close to a half million jobs since 1997, even though output has remained stable.



Source: Bureau of Economic Analysis.

The Current Account reflects the gap between domestic saving and investment. In recent years, US investment has been booming and domestic saving has been relatively flat. Despite the elimination of the federal budget deficit, national saving – traditionally low in the United States – has not improved, primarily because private saving has continued to fall. The United States needs to make up this "saving gap" by borrowing from abroad. Over the last decade foreign governments, firms and individuals have invested hundreds of billions of dollars a year in US securities to finance this gap.

During the 1980s, when the federal budget deficit began ballooning, the United States went from being the world's largest creditor to the world's largest debtor. Such a dependency on foreign borrowing makes US financial markets vulnerable to changes in foreign investor preferences. If foreign investors decide not to continue to buy dollar-denominated assets, the value of the dollar could depreciate significantly, making US imports more expensive, pushing up inflation, and possibly contracting the domestic economy.

In the long-run, the large current account deficit makes the US economy more vulnerable to external shocks. In the short-run, the deficit reflects real economic hardship for US workers and their families. Increased imports and slow export growth have contributed to further shifts in employment out of high-paying manufacturing jobs and into service jobs which may be lower-paying and frequently do not provide benefits. Although the expanding economy makes it somewhat easier for workers to find new jobs, the adjustment process still places severe burdens on individuals and their families. Dislocated workers are sometimes forced to accept permanent income losses in order to get re-employed. This transition may also entail the need to move, retrain, lose health care, and pension coverage. Policies should be implemented to ease the adjustment burden being felt by these workers, who, by no fault of their own, find themselves under severe economic pressure.

XII. Conclusion

The economy is in its best shape in years, yet some Americans are still not sharing in the prosperity. There remains quite a lot of unfinished business to attend to in order to raise living standards of all Americans, not just for the lucky few.

Despite recent improvements in all income groups, the gap between the rich and the poor continues to widen. Stemming any further widening in the income gap, let alone reducing it, does not necessarily have to mean taking wealth away from the rich. It can be done by devoting more of the recent economic gains to those people whose incomes have not been growing as much.

One immediate way to narrow this gap is to strengthen the safety net for those in lower income groups. First and foremost, the minimum wage should be raised in order to correct for the 20 year erosion in its value. The next step is to encourage the adoption of Living Wage ordinances throughout the country.

Losing or not having health care coverage can be very costly, and can throw families into poverty. Health care coverage should be extended to all those who need it, and the delivery of health care services should be improved. In particular, more needs to be done to insure that all children are covered by health care insurance.

Prescription medication is becoming one of the most expensive elements of health care, and its cost is expected to continue rising in the future. Congress should expand Medicare to include prescription drug coverage for all seniors and disabled people, those who face the heaviest burden of rising medication costs.

The United States is experiencing an unprecedented period of economic prosperity. Unemployment is at a historic low and there are no signs of a resurgence of inflation. But as good as this story is, it is not complete. Economic prosperity has not yet come to millions in our society, and for most it has come following a period of prolonged economic stagnation. The challenge before the nation is to both ensure the continuation of this economic prosperity and to aim at sharing its benefits more widely with all Americans.